

## Corporate profile

Grupo Sanborns is a leader in the Mexican retail market. The Company has a unique portfolio of formats including departmental, specialty stores, electronics and entertainment, convenience, luxury and restaurants. With highly recognized brand names such as Sears, Sanborns, iShop-MixUp, Dax, Sanborns Café and Saks Fifth Avenue, we operate 441 stores in 56 cities in Mexico and Central America, equivalent to a commercial area of nearly one million 235 thousand square meters. In addition, we provide financing to 4.1 million customers by our proprietary credit cards.

## Mission, vision and values

### Mission:

To offer our customers the highest quality in products and services, at the right price and environment, through the best personalized sale experience; thus, looking for the greatest client's satisfaction. At the end, our customers are our "*raison d'être*".

### Vision:

To consolidate and maintain the leadership of our Group in the market by integrating the needs of our clients, personnel, suppliers and shareholders.

### Values:

- **Work:** It is a principle of personal and professional development and emotional satisfaction when considered as a vehicle from which we may have our needs satisfied, grow as individuals, and serve others.
- **Growth:** Our skills and knowledge benefit from growth, which translate into our and the Group's capacity to offer more and better products under an excellent atmosphere of service to our customers.
- **Social Responsibility:** This concept symbolizes the need to perform our work well, in order to confirming our ethical values, fulfilling the commitment we have with our clients and suppliers, as long as observing applicable regulation and taking care of natural resources and the environment.
- **Efficiency:** Being austere, caring and efficiently using the resources we have, together with spending on what is necessary and avoid the useless or superfluous, represent the best way over which we understand and practice efficiency within our businesses.

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# Key Financial Information

(Million pesos at December 31 of each year\*)

| GSanborns  | 2016      | 2017      | 2018             | Var%    |
|--|-----------|-----------|------------------|---------|
| <b>Income</b>  |           |           |                  |         |
| Total Sales  | 47,594    | 49,768    | <b>51,755</b>    | 4.0%    |
| Retail Sales   | 44,411    | 46,159    | <b>47,961</b>    | 3.9%    |
| Credit Income  | 3,183     | 3,609     | <b>3,794</b>     | 5.1%    |
| Gross Profit   | 18,922    | 19,724    | <b>20,125</b>    | 2.0%    |
| Operating Income   | 6,620     | 5,158     | <b>4,796</b>     | -7.0%   |
| Operating Margin   | 13.9%     | 10.4%     | <b>9.3%</b>      | -1.1 pp |
| EBITDA   | 6,474     | 6,332     | <b>5,971</b>     | -5.7%   |
| EBITDA Margin  | 13.6%     | 12.7%     | <b>11.5%</b>     | -1.2 pp |
| Controlling Participation in Net Income                    | 4,466     | 3,958     | <b>3,535</b>     | -10.7%  |
| Net Margin   | 9.4%      | 8.0%      | <b>6.8%</b>      | -1.2 pp |
| <b>Balance</b>   |           |           |                  |         |
| Total Assets   | 45,185    | 47,888    | <b>50,382</b>    | 5.2%    |
| Total Liabilities  | 14,234    | 15,368    | <b>16,589</b>    | 7.9%    |
| Consolidated Stockholders' Equity                          | 30,952    | 32,520    | <b>33,793</b>    | 3.9%    |
| Capital Expenditures (CapEx)                               | 2,905     | 1,584     | <b>1,418</b>     | -10.4%  |
| Total Debt   | 0         | 0         | <b>0</b>         | 0       |
| Net Debt   | -1,714    | -1,925    | <b>-2,478</b>    | 28.7%   |
| Net Debt/EBITDA  | -0.26     | -0.30     | <b>-0.41</b>     | 36.5%   |
| CapEx/Sales  | 6.1%      | 3.2%      | <b>2.7%</b>      | -0.5 pp |
| <b>Credit</b>  |           |           |                  |         |
| Credit Portfolio   | 12,009    | 12,891    | <b>12,920</b>    | 0.2%    |
| % Non-Performing Loans                                     | 2.8%      | 4.3%      | <b>4.4%</b>      | 0.1 pp  |
| Credit Cards issued  | 3,672,865 | 3,941,514 | <b>4,156,035</b> | 5.4%    |
| <b>Other indicators</b>                                    |           |           |                  |         |
| Total Area (Sq meters)                                     | 1,186,230 | 1,207,060 | <b>1,235,822</b> | 2.4%    |
| Compounded Average number of outstanding Shares (thousand) | 2,304,320 | 2,296,548 | <b>2,264,891</b> | -1.4%   |
| Earnings per Share**                                       | 1.94      | 1.74      | <b>1.56</b>      | -10.1%  |
| Closing year stock price***                                | 21.69     | 19.60     | <b>17.70</b>     | -9.7%   |

\* Except outstanding shares, earnings per share and number of credit cards.

\*\* Controlling Participation in Net Income divided by the compounded average number of outstanding shares.

\*\*\* Started quoting in the MSE on February 8th, 2013.

pp: Variation in percentage points.

EBITDA: Income before income taxes plus depreciation and amortization, interest expense, impairment of machinery and equipment and exploration expenses, and effect on valuation of derivative financial instruments, less interest income, net foreign exchange gain, surplus from appraisals of shopping centers and equity in earnings of associated companies and joint ventures. Review EBITDA conciliation in Note 26 of the Financial Statements.

# Formats and Brands



- Fashion, large and small appliances, furniture, home improvement and electronics.

97  
stores

50%  
of sales 2018

869,059  
sales area [sqm]



- Books, magazines, health and beauty, pharmacy, electronics, toys, music, videos, jewelry, photography, cellular phones, clothing, candy and gifts.
- Bar and restaurant service.

167  
stores

24%  
of sales 2018

255,752  
sales area [sqm]



- Apple products and related accessories, music, videos, movies and video games.

122  
stores

19%  
of sales 2018

40,491  
sales area [sqm]



- Perfumery and cosmetics.
- Accessible traditional Mexican food.
- High-quality clothing and accessories.
- Shopping malls.
- E-commerce platform.

55  
stores

7%  
of sales 2018

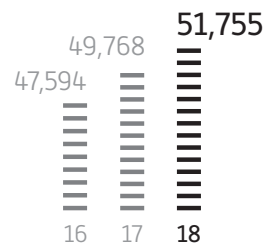
70,520  
sales area [sqm]



\*Includes 2 Boutiques



**Total Sales**  
(Million pesos)

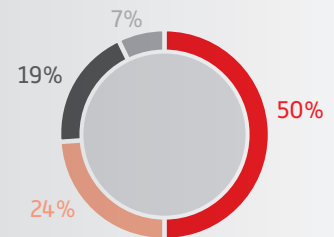


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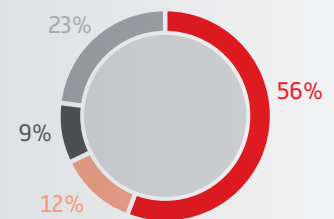
cities with presence in the country of our network of stores.



**Sales Breakdown by Subsidiary**  
(Million pesos)

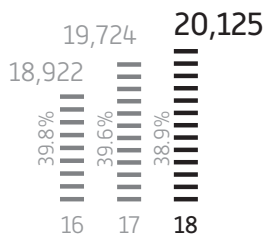


**EBITDA Breakdown by Subsidiary**  
(Million pesos)

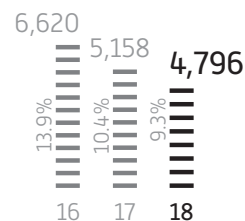


● Sears ● Sanborns ● Promusa ● Other

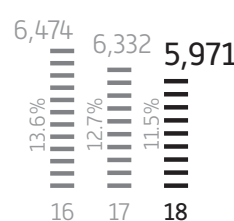
**Gross Profit**  
(Million pesos)  
Gross Profit %



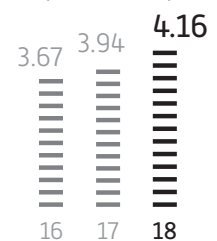
**Operating Income**  
(Million pesos)  
Operating Margin %



**EBITDA\***  
(Million pesos)  
EBITDA Margin %



**Number of GS private label cards**  
(Million cards)



\* For 2016, \$1,263 million pesos of other income was not considered, where \$1,141 million come from the accounting profit from the acquisition of 14.0% in Inmuebles SROM, S.A. of C.V. and \$122 million come from the appraisal of investment properties, among other items. For 2017 and 2018, Other Income was not considered for \$ 85 million pesos and 115 million pesos from valuation of investment properties and property deterioration, respectively. See reconciliation of EBITDA in Note 27 of the Financial Statements.

# Message to Shareholders

During 2018, the global environment took a turn for the better, aided by the growth of the United States economy and despite the increase in interest rates, added to the tense relationship between that country and China. Both factors are the result of the bilateral imposition of tariffs, which affect the trade between those two countries and which have given rise to renegotiation strategies in their commercial relationship.



## **Economic Outlook for 2018**

Benefitting from the reform of the internal revenue laws, which reduced corporate taxes from 35.0% to 21.0%, impelling the generation of corporate profits, the United States economy grew by 2.9% during 2018, a rate that produced an increase of 7.0% in nonresidential investment in that country. Meanwhile, domestic demand continued to show a positive trend during the year, with the consumption of durable goods increasing by 5.7%. Based on these factors, the United States Federal Reserve continued with its monetary policies, and the interest rate, which was more than 1.50% at the end of 2017, was adjusted to 2.50% by the end of 2018. Nevertheless, since the beginning of 2019, the Fed has shown signs of caution concerning economic growth, and at the beginning of the latter year it has predicted that the economy will grow at a slower pace in 2019, with a moderate and stable expansion.

As for the Mexican economy, Gross Domestic Product grew by 2.0% during the year, which was mostly attributable to the services sector of the economy. In this respect, the commercial activity as well as the mass media and the financial sector itself saw an expansion greater than other sectors of the economy. The economic growth of the country was partially affected by the performance of the manufacturing sector in 2018, due mainly to the lower production of oil, which was around 1.7 million barrels of oil per day.

As for the fluctuation in the value of the Mexican peso against the United States dollar, this variation was due to the volatility that characterized the year, causing a maximum exchange rate of \$20.60 pesos per dollar during that period. Thus, the exchange rate went from \$19.66 in 2017 to \$19.65 pesos per dollar at the end of 2018.

The negotiations over the United States-Mexico-Canada Agreement (known as USMCA) were concluded during the year, thereby reducing the uncertainty that had been present since the last presidential election in the United States in respect to the modernization of the commercial relationships between these three countries. It is expected that this new agreement will be approved by the legislative bodies of each of the participating nations, to thereby strengthen Mexico's position in the North American market as an exporting nation, an attractive destination for investment and a capital for industrial development in the country.

In respect to the annual evolution of other indicators of the Mexican economy, the rate of inflation decreased in Mexico in 2018, ending at 4.83%, which compares favorably with the rate of 6.77% of the previous year. This favorable result was principally due to a smaller increase in the price of gasoline during the year. As for the country's trade balance, there was a deficit of \$13.704 billion USD, increasing by \$2.736 billion USD in respect to 2017. Specifically, the deficit in the petroleum trade balance grew by \$4.881 billion USD during the year, to the amount of \$23.190 billion USD. Nevertheless, the surplus in the non-petroleum trade balance grew by 26.7% to end up at \$9.485 billion USD at the end of the year, to thereby reflect an increase of 9.1% in Mexico's manufacturing exports.

Recently, various austerity, transparency and public finances policies and measures have been established by the new Mexican Government to combat corruption, insecurity and poverty in the country. The said problems represent the principal obstacles that hinder the generation of jobs and internal economic growth.

The Mexican Government has proposed as an objective a growth of the Mexican economy of 4.0% annually, which implies that greater investments must be carried out. In this respect, the Ministry of the Treasury and Public Credit has considered raising public investment from 2.6% of the Gross Domestic Product in 2018 to at least 5.0% of the said economic indicator, and it calculates that the participation of the private sector must be greater than 20% in order to drive the development of Mexico.

### Grupo Sanborns

Sales increased 4% during the year, thanks to the greater dynamism observed in all the store formats. Specifically, the recently remodeled stores, corresponding to Sears Perisur and Centro Histórico, contributed in a positive manner, as well as the new combined-format Sears-Sanborns stores in Cuernavaca Averanda and Parque Las Antenas. Greater sales were also observed throughout the year in Promotora Musical, as well as in the Other Formats segment.

We continued to develop our proprietary brands in Sears, and we maintained the efficiency of combined-format spaces, as well as the evaluation of the profitability of the stores. This led to the closure of one Sears store during the period. Market volatility in 2018 caused an increase in interest rates, and for this reason, we decided to reinforce our credit strategy in order to improve the credit portfolio with balanced sales with no-interest promotions, while endeavoring to counter the increase in unrecoverable accounts.

In Sears we continued to work on the construction of our proprietary brands and in the strengthening of our distribu-

# 4.0%

sales growth due to  
higher dynamism in all  
the formats.





*In Promotora Musical eight iShop stores opened during the year, additionally to four stores that renovated their image.*



# 3.2%

grew same store sales  
[SSS] in Sanborns,  
versus -1.9% in 2017.



tion and logistics. In this respect, our Distribution Center – damaged from the earthquakes in Mexico City in September of 2017 – restored its flow of merchandise during the year and received support from a new distribution center located in the Mexican state of Guanajuato, established for the purpose of serving the markets in the center and northeast of the country.

In Sanborns, the sales of recorded music and videos continued their downward trend, while the inventory in books was affected by the mergers among some publishing companies. Therefore, our strategy during the year was to maintain profitability by means of an efficient distribution of spaces to favor categories of greater added value and sales. We also decided to close eight units that for various reasons were not meeting the criterion of profitability. We also began to open integrated Sanborns-Sears stores, seeking to complement the supply of merchandise and to offer restaurant service, under a combined format.

In Promotora Musical, eight iShop stores were opened during the year, and another four stores were remodeled, creating in them a new image. AppleCare memberships and customer loyalty programs, such as the “buyback” program were implemented, promoting the exchange of equipment. These measures produced very good end-of-the-year results in the volume of sales. In “MixUp” we continued with the strategy of improving the mixture of products, with the introduction of more technology and entertainment accessories.

Our e-commerce sales strategy has undergone a continuous evolution in the Sanborns and Sears sites and digital apps, complemented by the development of the *ClaroShop.com* marketplace, which has increased the online sale of products and services.

Lastly, the Company continues to be financially sound, with a robust capital structure, a healthy debt position and the liquidity that will allow the Company to continue its strategies.

In terms of sustainability, the Carlos Slim Foundation is developing 96 programs and projects in thirteen different areas, including education, jobs, health, sports, culture and the environment, reaching more than 45 million beneficiaries in Mexico and other Latin American countries. Of particular relevance for the Foundation, beginning in September of 2017, is the “Mexico Unido” initiative, to address the damage caused by the earthquakes. During the emergency phase, the companies in the Group and their volunteers responded immediately to the basic needs of the thousands of people who were affected, by providing food, field tents, blankets, sleeping mats, water purifiers and telecom services.

During the phase involving the reconstruction and building of new homes and markets, we issued a call in which the Foundation would contribute five pesos to match every peso received. We received a response from 217 thousand donors who placed their trust in us and donated \$412.4 million pesos, to which was added \$2.0618 billion pesos contributed by the Foundation. This money has been used for the rebuilding of homes, for health and educational infrastructure and for the reconstruction of the nation’s cultural patrimony. As we have established from the beginning, the actions taken and the application of these resources have been published, month by month, in the Foundation’s web page.

Sincerely yours,

**Carlos Slim Domit**

Chairman of the Board of Directors of Grupo Sanborns, S.A.B. de C.V.

# Management's Discussion and Analysis

In 2018 Grupo Sanborns sales increased by 4.0% to a total of \$51.755 billion pesos. Sears, Sanborns, Promusa and other formats contributed with 50.0%, 24.0%, 19.0% and 7.0% of the sales, respectively. Consolidated same store sales grew by 3.6% during the year.



The credit portfolio remained stable at \$12.920 billion pesos at the end of the year, with a growth of 0.2% compared to 2017. This small growth was the result of greater caution in the approval of new credit accounts, in order to maintain a positive balance in the credit portfolio. Two hundred and fifteen thousand new cardholders were added, for a total of 4.16 million cards. The number of non-performing loans was 4.4%, very similar to the previous year.

The operating profit for the year decreased by 7.0% to a total of \$4.796 billion pesos. This was due to greater sales of big-ticket items such as furniture, technology and electronics in the mix of products, coupled with an increase of 4.9% in operating expenses, which, in turn, was due to (i) the closure of unprofitable stores during the year, (ii) the opening of two new Sears-Sanborns combined stores, as well as (iii) the increase in unrecoverable credit and reserve accounts.

The EBITDA for 2018 was \$5.971 billion pesos, with a profit margin of 11.5%.

In regard to the Comprehensive Financial Result (CFR), this was positive by \$101 million pesos, and greater than for 2017 by 75.8%, as a result of the higher net interest earned.

The net controlling profit of Grupo Sanborn decreased by 10.7% in 2018 to a total of \$3.535 billion pesos, compared to \$3.958 billion pesos in 2017.

# 215

thousand new cardholders  
of all the formats.

In 2018, the expansion plan included the opening of four Sanborns stores, four Sears stores, nine iShop stores and one MixUp store, of which two are combined Sears-Sanborns stores. Included is the reopening of all the formats previously mentioned in the Galerías Coapa Shopping Center. Additionally, the remodeling and expansion of the Sears Perisur and Centro Histórico stores in Mexico City was concluded. The capital expenditures of the Group totaled \$1.418 billion pesos. Investments were realized in the distribution center and in the readjustment of departments, both in the Sears as well as in the Sanborns stores, to focus in categories of greater profitability. We now have 441 units with a commercial floor space of 1,235,000 square meters and two shopping centers.

Grupo Sanborns was free of debt on December 31, 2018, while its cash on hand was \$2.478 billion pesos, compared to \$1.925 billion pesos at the end of December of 2017. This increase of \$553 million pesos was due, among other reasons, to the increase in working capital and payables to suppliers.

Sincerely yours,

**Patrick Slim Domit**

Chief Executive Officer  
Grupo Sanborns, S.A.B. de C.V.



# SEARS

*Se entiende*



Sears is the second largest chain of department stores in the country, and in 2018 reached 3.4 million cardholders of Sears private label card, which makes it one of the largest non-bank credit card issuers of Mexico. At the end of 2018, Sears had 97 department stores and two boutiques, for a total of 870,018 square meters of commercial floor space.



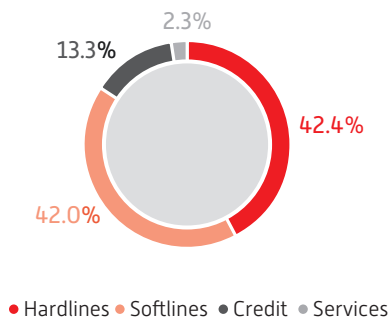


In 2018 Sears reported sales of \$25.815 billion pesos, thereby contributing 50.0% of the total sales and 56.0% of the consolidated EBITDA of Grupo Sanborns. The most important events of the year were the opening of two combined Sears-Sanborns stores located in Cuernavaca Averanda and Parque Las Antenas. Also, the remodeling and expansion of Sears Perisur and Centro Histórico stores in Mexico City took place. The Distribution Center normalized its flow of merchandise after its temporary closure in 2017 as a result of the earthquakes in Mexico City.

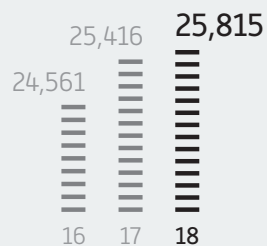
Sears maintained its services, its focus on its own brands and merchandise of greater added value, as well as the refurbishing of the stores, in order to present a more modern image to the customers.

In regard to sales through ecommerce, the number of items offered in the [www.sears.com.mx](http://www.sears.com.mx) website increased, as well as the number of stores with online sales and collection at the store with the "click-and-collect" service.

### Sales Breakdown by Category



### Total Sales (Million pesos)



### Sales by Compounded Sqm (Thousand Pesos)



*Among the most important events of the year, was the opening of two Sears-Sanborns combined stores in Cuernavaca Averanda and Parque Las Antenas.*



**\$25.815**

billion pesos in sales, contributing with 50% and 56% of the consolidated total sales and EBITDA of the Sanborns Group, respectively.

*Our principal bet on Sears is the customization of the stores with the reallocation of commercial spaces based on the sales of particular items, and to increase e-commerce.*



# Sanborns



Sanborns is a unique retailing concept, highly successful in Mexico, and the leader in the sale of many categories of services and products such as books, photography equipment, cell phones and telephone accessories, perfumes and cosmetics. Additionally, it is the second largest chain of restaurants in the country.



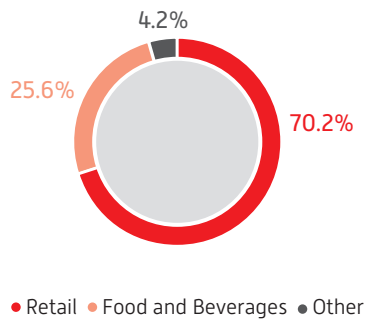




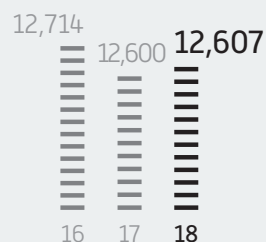
In 2018, Sanborns stores reported \$12.608 billion pesos in sales, with 24.0% of Grupo Sanborns' consolidated sales and 12.0% of EBITDA. Among the most important activities of Sanborns in that year was its focus on categories of greater value and on increasing the number of its own credit cards outstanding. In 2018, two combined Sanborns-Sears stores were inaugurated in Cuernavaca Averanda and Parque Las Antenas under the concept of integrated stores, to take advantage of the department store traffic and increase operational efficiency, reducing the merchandise of lower turnover and profitability. The reopening of the stores located in the commercial centers of Galerias Coapa in Mexico City and Mérida Altabrisa in Yucatán, was also carried out, as well as the closing of eight stores that were not meeting the profitability benchmark.

At the end of the year, Sanborns had 167 stores and 255,752 square meters of commercial floor space.

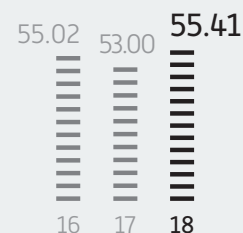
### Sales Breakdown by Category



### Total Sales (Million pesos)



### Compounded Store Sales by Sqm (Thousand pesos)



*The stores located in the commercial centers of Galerías Coapa and Mérida Altabrisa were reopened.*



**\$12.508**

billion pesos in sales, with 24.0% of the Grupo Sanborns' consolidated sales and 12.0% of EBITDA.

*Among the most important activities of Sanborns in the year was its focus on categories of greater value and on increasing the number of its private label credit cards.*



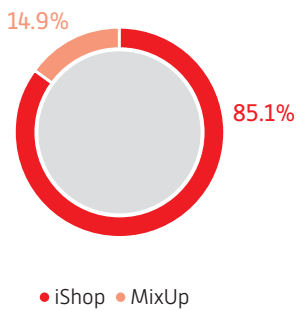
MixUp is the largest music and video retailer chain in Mexico, while iShop is the largest chain of retail stores selling Apple products and their accessories in Mexico. Both chains go under the commercial name of Promotora Musical, S.A. de C.V. (Promusa).



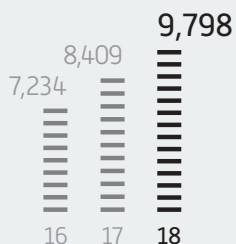


Promusa contributed 19.0% of the total sales and 9.0% of Grupo Sanborns' consolidated EBITDA. During 2018, iShop opened eight new stores, and reopened one iShop and one MixUp store in the Galerías Coapa commercial center in Mexico City. Additionally, it carried out a change of image in four other stores. On its part, MixUp continued to improve its mixture of items into products of a greater aggregated value, replacing music CD's with technological items, electronics and videogames. At the end of the year, adding both types of stores, there were 122 units and 40,491 square meters of commercial floor space.

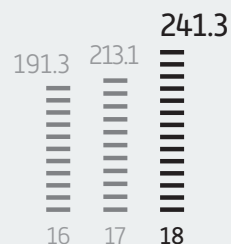
### Sales Breakdown by Category



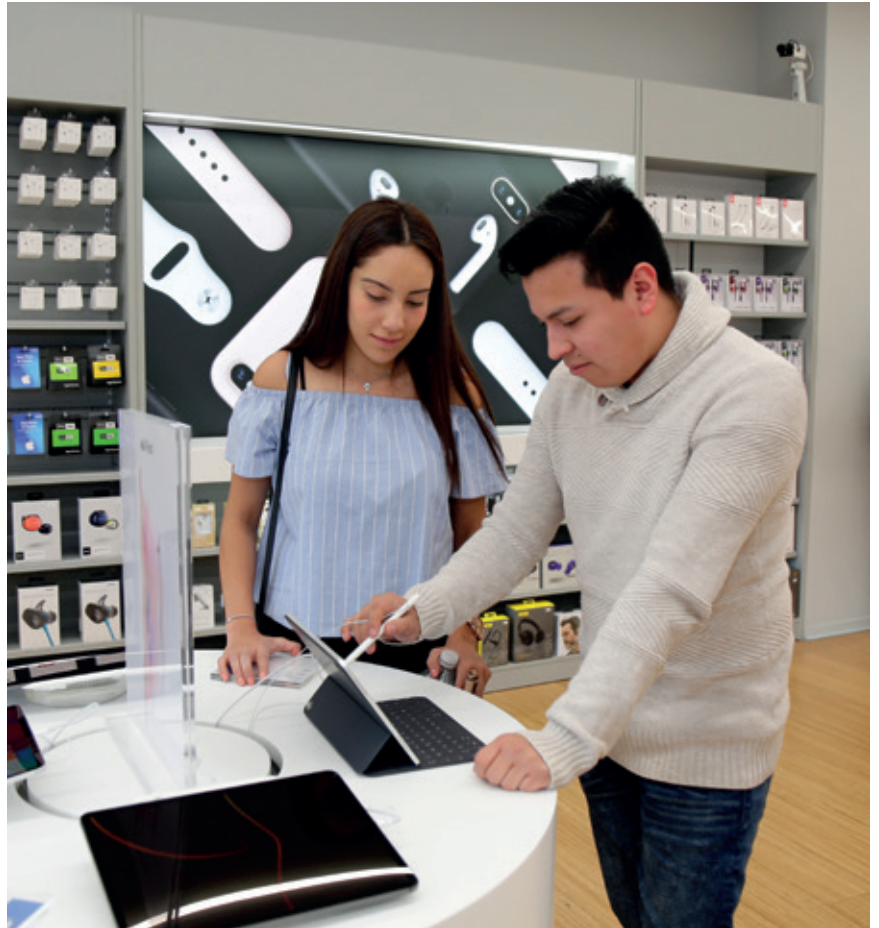
**Total Sales**  
(Million pesos)



**Sales per Sqm**  
(Thousand Pesos)



*During 2018 iShop opened eight new stores and reopened one iShop and one MixUp store in the Galerías Coapa shopping center.*



Promusa contributed

**19%**

of Grupo Sanborns' consolidated sales and 9.0% of EBITDA.

*The sale of recorded music and videos in MixUp was reduced, and commercial spaces were reassigned to the introduction of telephone accessories and portable audio equipment.*



Our DAX, Sanborns Café and Saks Fifth Avenue stores complete our diversified portfolio. Our Saks Fifth Avenue stores offer products and services similar to the Saks Fifth Avenue stores of the United States, adapted to local preferences, while our DAX stores offer articles of convenience and miscellany, perfumes, cosmetics, personal care and home items through direct sales to the final consumers.







- Sanborns Café has 22 stores in five Mexican states and Mexico City.
- The Dax retail regional chain, consisting of 25 stores, mainly carries cosmetics and perfumes.
- Saks Fifth Avenue consists of two luxury department stores featuring international fashion designers.
- Two commercial centers, Plaza Loreto and Plaza Inbursa.
- One Sears store and three Sanborns stores in Central America.
- The electronic commercial website ClaroShop.com

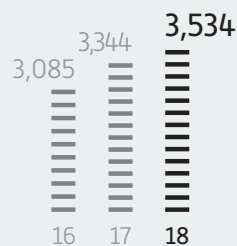
At year-end, Other Formats totaled 53 stores and 69,561 sqm of retail area.

7%

of the total revenue was contributed by Dax, Sanborns Café and Saks Fifth Avenue, together with our other sources of revenue, as of December 31, 2018.



**Total Sales**  
(Million pesos)



*In Saks Fifth Avenue the sales and the profit margins have increased. In Dax, the mixture of products was modified, with fewer groceries and more cosmetics and beauty products.*



# 71,225sqm

is the total commercial floor space of our two shopping centers Plaza Loreto and Plaza Inbursa.

*We continue to invest in our e-commerce initiatives. In ClaroShop.com, where we have powered the Marketplace, there has been a significant growth in sales.*

# Sustainability

## Social Performance

The Carlos Slim Foundation is developing 96 programs and projects in 13 different areas, including education, jobs, health, sports, culture and the environment, reaching more than 45 million beneficiaries in Mexico and other Latin American countries.

Of particular relevance for the Foundation, beginning in September of 2017, is the “Mexico Unido” initiative, to address the damage caused by the earthquakes. During the emergency phase, the companies in the Group and their volunteers responded immediately to the basic needs of the thousands of people who were affected, by providing food, field tents, blankets, sleeping mats, water purifiers and telephone services.

During the phase involving the reconstruction and building of new homes and markets, we issued a call in which the Foundation would contribute five pesos to match every peso received. We received a response from 217 thousand donors who placed their trust in us and donated \$412.4 million pesos, to which was added \$2.0618 billion pesos contributed by the Foundation. This money has been used for the rebuilding of homes, for health and educational infrastructure and for the reconstruction of the nation’s cultural patrimony. As we have established from the beginning, the actions taken and the application of these resources have been published, month by month, in the Foundation’s web page. For more information in this respect, go to the website [www.fundacioncarlosslim.org/](http://www.fundacioncarlosslim.org/)

In addition to the Foundation’s activities, the Grupo Sanborns companies continued their investments in education, health, infrastructure and community development by means of the following initiatives:

- Participation in yearly campaigns for the prevention and control of diseases, in collaboration with the Carlos Slim Institute of Health,
- Program for the rescue of historic real estate in Sanborns,
- Program for the employment of disabled persons in Sanborns and Sears, through the Mexican Confederation of Organizations for the Aid of Persons with Disabilities (CONFE), the Multiple Attention Center (CAM), the Young Men’s Christian Association (YMCA), and the National System for the Integral Development of Families (DIF),
- Free courses in the “Train Yourself for a Job” digital platform of the Carlos Slim Foundation, accessible for all persons in general, as well as access to the Jobs Market, which includes recruitment processes for the companies of Grupo Sanborns.



## Environmental Performance

The sustainability policy, the GRI 4 index, and the environmental indices in general for energy, water, biodiversity, emissions, effluents and residues, premiums, certifications, acknowledgments and volunteer programs can be consulted in the Carso Sustainability Report. Go to the website [www.gsanborns.com.mx/desempeno-ambiental.html](http://www.gsanborns.com.mx/desempeno-ambiental.html)

During the year of 2018, Grupo Sanborns continued with its compliance with the environmental standards to which it is subject, mainly in regard to the control and recording of residual waters, the discharge of emissions into the atmosphere, and in the handling and final disposal of solid residues and dangerous materials, utilizing the companies authorized by the corresponding environmental and sanitation authorities for that purpose.

## Labor, Health and Safety Performance

Sears, Sanborns, MixUp, Dax and ClaroShop.com provide permanent and temporary employment to more than 50 thousand persons in Mexico and in El Salvador. In 2018 the number of employees increased by 5.8% over the previous year. The following are Benefits Programs found in Sears:

- Scholarships in digital science and scholarships for children and direct family members of employees,

- Flexible work hours for mothers and fathers; economic assistance for funeral expenses and leaves with pay,
- Campaigns for the prevention of illnesses, with the collaboration of the Mexican Social Security Institute (IMSS) and the Ministry of Health (SSA),
- Civil Protection Programs with the training of volunteer brigades,
- Personal development programs through the Association for Improvement for Mexico (ASUME), the Human Quality Management and Corporate Social Liability System (CRESE) and the Social Welfare program,
- Courses through the “Train Yourself for a Job” digital platform of the Carlos Slim Foundation for the basic training of the operational and middle management personnel,
- Programs for training in sales and management skills.

In Sears we have a Training Center in Mexico City, located in Centro Histórico and Carso headquarters, and in Tijuana, as well as 98 training rooms located in the operating units, and 48 training rooms in Sanborns; in the corporate offices; the two Training Centers in the Viaducto plant and the foreign locations, which include Panama and El Salvador. A total of 59,134 courses were delivered in 2018, which were completed by 58,011 persons, and which included technical training courses on operations, developmental, safety and health. Additionally, in Sanborns the very important Civil Protection program was continued, in which 4,861 persons took part, an increase of 15.1% in respect to 2017.

In Sears, personnel were hired and trained for the new stores at Cuernavaca AVeranda, Parque Puebla, Parque Las Antenas and for the reopening of Villa Coapa. The distribution center in Silao, in the Mexican state of Guanajuato, was also opened, and the e-commerce initiative was consolidated in a nucleus of twelve stores, which led to the generation of 968 jobs. The training courses in Sanborns for the opening and pre-opening of stores involved 493 trainees.

In 2018, assistance continued for the Sears and Saks Fifth Avenue employees whose homes were affected in various ways by the 2017 earthquake. Those persons who required aid were assisted by the Carlos Slim Foundation.

Digital Science Scholarships were awarded to 669 children of workers and 310 Telmex-Telcel scholarships were awarded to workers or their children during the year.

The ASUME (Asociación de la Superación por México) program attained 303 groups, 3,082 collaborators who graduated, plus 230 collaborators who were enabled as instructors.

The CRESE (Sistema de Calidad Humana y Responsabilidad Social en la Empresa) program was continued, with the recertification of 67 Sears stores (credit centers, technical service centers, and logistics centers), for a total of 104 certified units. Also, twenty stores were incorporated in 2018.

In the Welfare Program, work was carried out on three fundamental aspects: Training, Health, Cultural Pursuits and Recreation. In 2018 39,287 persons (consisting of 34,560 collaborators and 4,727 family members) were benefited by the various programs. The collaborators and family members were from Sears, Sanborns, Dax, and ClaroShop.

Works with the Carlos Slim Foundation “Train yourself for your Job” digital platform continued, using it for the basic training of the operational personnel and supervisors. Throughout the year, 844 Sears workers in various categories were trained, and 3,454 new employees were hired and trained on the said platform.

For more information, go to Sustainability Activities section of Grupo Sanborns web page [www.gsanborns.com.mx/responsabilidad-social.html](http://www.gsanborns.com.mx/responsabilidad-social.html)

*Sears, Sanborns, iShop, MixUp, Dax and ClaroShop are the source of employment for more than 50,000 permanent and temporary workers in Mexico and El Salvador.*



# Board of Directors

| Proprietary Directors           | Position*  | Years as Director** | Type of Director*** |
|---------------------------------|--|---------------------|---------------------|
| Carlos Slim Domit               | COB - Grupo Sanborns<br>COB - Grupo Carso<br>Co-Chairman - América Móvil<br>COB - Teléfonos de México<br>COB - Promotora Musical   | Six                 | Patrimonial Related |
| Carlos Slim Helú                | COB - Fundación Carlos Slim<br>COB - Fundación Telmex<br>COB - Carso Infraestructura y Construcción  | Six                 | Patrimonial Related |
| Patrick Slim Domit              | CEO - Grupo Sanborns<br>Vice-Chairman - Grupo Carso<br>Co-Chairman - América Móvil<br>Commercial Director of Massive Market - Teléfonos de México<br>COB - Grupo Telvista<br>COB - Sears Operadora México  | Six                 | Patrimonial Related |
| Johanna Monique Slim Domit      | Head of the Early Childhood Education Program at the Carlos Slim Foundation  | Six                 | Patrimonial Related |
| Isac Mark Massry Nakash         | CEO - Promotora Musical<br>Alternate Board Member - Sears Operadora México   | Six                 | Related             |
| Alberto José Slim Rivera Torres | Sub Director - Shopping Centers at Inmuebles Carso, S.A. de C.V.   |                     | Independent         |
| José Kuri Harfush               | COB - Janel<br>Board Member - Sanborn Hermanos<br>Board Member - Sears Operadora México  | Six                 | Independent         |
| Antonio Cosío Pando             | General Manager - Cia. Industrial de Tepeji del Río<br>Board Member - Sears Operadora México   | Six                 | Independent         |
| Pablo Roberto González Guajardo | CEO - Kimberly Clark de México<br>Board Member - América Móvil and Grupo Lala<br>Founding Partner - Mexicanos Primero and México ¿cómo vamos?<br>COB - Education Commission of the Entrepreneurial Coordinator Council<br>COB - UNETE Mexico City and State of Mexico                        | Six                 | Independent         |
| Juan Rodríguez Torres           | Advisor  | Six                 | Independent         |
| Ángel Eduardo Peralta Rosado    | Board Member - Sanborn Hermanos<br>Alternate Board Member - Sears Operadora México   | Six                 | Independent         |
| Claudio X. González Laporte     | COB of Kimberly-Clark de México, S.A.B. de C.V.<br>Board Member - Fondo México, Grupo Alfa, Grupo México, Grupo Carso, Sanborn Hermanos, The Salzburg Global Seminar and The Baker Institute for Public Policy<br>Advisor of Capital Group<br>Emeritus Board Member of General Electric, Co. | Three               | Independent         |
| Santiago Cosío Pando            | Board Member - Sanborn Hermanos, Sears Operadora México, Inbursa<br>Corporate COB of Grupo Pando<br>COB of MEXFAM  | Three               | Independent         |
| Clemente Serna Alvear           | Board Member - Sanborn Hermanos, Tecnológico de Monterrey Metropolitan Area, and Mexico City Club of Industrials<br>COB - "Amigos de la Catedral Metropolitana de México, A.C." Association  | Three               | Independent         |
| <b>Alternate Board Members</b>  |  |                     |                     |
| José Manuel Campo y Menéndez    | Operations Director - Sanborn Hermanos<br>Alternate Board Member - Sears Operadora México  | Six                 | Related             |
| Edgar Smolensky Kirchner        | Commercial Director Purchases Fashion Divisions - Sears Operadora México   | Six                 | Related             |
| <b>Secretary</b>                |  |                     |                     |
| Arturo Martínez Bengoa          |  |                     |                     |

\* Based on information from the board members.

\*\* Seniority as board member is considered since 2013, year when the shares of Grupo Sanborns, S.A.B. de C.V. were listed in the Mexican Stock Exchange.

\*\*\* Based on information from the board members. Independent directors in accordance with the definition of the Mexican Securities Market Law. COB: Chairman of the Board. CEO: Chief Executive Officer.

# Audit and Corporate Practices Committee

## Grupo Sanborns, S.A.B. de C.V.

### To the Board of Directors:

In my capacity as Chairman of the Audit and Corporate Practices Committee of Grupo Sanborns, S.A.B. de C.V., [the "Committee"], I wish to deliver the following annual report of the Company's activities for the year of 2018.

### Evaluation and Compensation Functions

The Chief Executive Officer of Grupo Sanborns, S.A.B. de C.V. [the "Company"] and the corresponding directors of the juridical persons controlled by the Company satisfactorily completed the objectives with which they were entrusted and fulfilled their responsibilities.

On April 26 of 2018 Grupo Sanborns, S.A.B. de C.V. declared dividends in the amount of \$2,042,833,446.00 pesos, 50% of which were paid on June 20 of 2018 and the remainder on December 20 of 2018.

The subsidiary Sanborn Hermanos, S.A. also declared dividends in the amount of \$300 million pesos, and the subsidiary Sears Operadora México, S.A. de C.V., declared dividends in the amount of \$600 million pesos.

The following purchase/sale related party transactions that were submitted to the Committee were approved, as follows: revenue operations for the amount of \$617.4 million pesos; purchase operations in the amount of \$227.3 million pesos; and expense and other operations in the amount of \$1.9062 billion pesos.

The principal operations were with Radiomóvil Dipsa, S.A. de C.V. and América Móvil, S.A.B. de C.V., for the purchase of cell phone equipment, rate plans and memory cards for telephones and other concepts for the Company and its subsidiaries; Teléfonos de Mexico,

S.A.B. de C.V., for a call center; telephone installation services and the sale of telephony items; dining hall services; Seguros Inbursa, S.A. for insurance for the automobile fleet and for insurance for the property owned by the Company and its subsidiaries; for commissions, dining hall services for the subsidiaries of Inmuebles Borgru, S.A. de C.V. and Inmuebles SROM, S.A. de C.V. for the lease of properties; Banco Inbursa, S.A. for leases; commissions; the purchase of food; as well as for the dining hall services that it provides to the other subsidiaries.

All the transactions with related parties were carried out at market prices and they were reviewed by the accounting firm Galaz, Yamazaki, and Ruiz Urquiza, S.C. A summary of these transactions appears in a Note in the December 31, 2018 financial statement of Grupo Sanborns, S.A.B. de C.V. and Subsidiaries.

The Chief Executive Officer of Grupo Sanborns, S.A.B. de C.V. does not receive any remuneration for the performance of his activities in this respect. The Company does not have employees, and in regard to the integral remuneration of the directors of the companies that the Company controls, we have ascertained that it complies with the policies that were approved by the Board of Directors.

The Company's Board of Directors has not granted any dispensation so that any councilor, director or person with a mandate can take advantage of his position in order to carry out, to his own benefit or to the benefit of any third party, any business transaction corresponding to the Company or to the juridical persons it controls or over whom it has a significant influence. Nor has the Committee granted any dispensation for the transactions referred to in subparagraph c), Fraction III, Article 28 of the Stock Market Law.



### **Audit Functions**

The internal control and internal auditing system of Grupo Sanborns, S.A.B. de C.V. and of the juridical persons controlled by it is satisfactory and meets the guidelines approved by the Board of Directors, as can be gathered from the information provided to the Committee by the Company's Management and from the opinion issued by the external auditor.

We have no knowledge of any violation in regard to the Company's operational guidelines and policies or in regard to its accounting practices or in regard to the juridical persons controlled by the Company. Consequently, no preventive or corrective measures were implemented in that respect.

The performance of the accounting firm of Galaz, Yamazaki, Ruiz Urquiza, S.C., the juridical person who carried out the audit of the financial statement by Grupo Sanborns, S.A.B. de C.V. and Subsidiaries as of December 31, 2018 and the performance of the external auditor in charge of the said audit was satisfactory, and the objectives that were established at the time they were contracted were accomplished. Additionally, according to the information that the said auditing firm provided to the Company's Management, its fee for the external audit does not represent more than 10.0% of its total income.

As a result of the review of the financial statement by Grupo Sanborns, S.A.B. de C.V. and Subsidiaries as of December 31, 2018, it was determined that there were no important errors or fraud and that the principal adjustments proposed were due to excessive or insufficient provisions.

As far as we know, according to the information given to us by the Company's Management and from what we learned in the meetings we attended with the external and internal auditors, without the presence of Company's officials, there were no relevant observations made by shareholders or councilors, and there were no relevant directives or objections by any third party in general in regard to the accounting, internal controls or other matters related to the internal or external accounting, nor have there been any denunciations realized by the said persons in regard to irregular acts in the administration of the Company.

During the period that was reported, we ascertained that the accords adopted in the shareholder meetings and by the Company's Board of Directors had been complied with. Likewise, and in accordance with the information provided to us by the Company's Management, we verified that the Company has controls in place that allow for the verification that it is complying with the provisions it is subject to under stock market rules, and that its legal department reviews its compliance therewith at least once a year. We found no adverse information in this regard, and no change in the Company's legal situation.

In respect to the financial information that the Company prepares and submits to the Mexican Stock Exchange and to the National Banking and Stock Market Commission, we ascertained that the said information was elaborated under the same accounting principles, criteria and practices with which the annual report was elaborated.

### **Finance and Planning Functions**

During the fiscal year of 2018, the Company and some of the juridical persons it controls made some important investments in keeping with the Company's intermediate- and long-term strategy. The Company's strategic position is evaluated periodically to ensure that it is in accordance with the said strategy and in accordance with its budget for the fiscal year and with the financial projections that were taken into account for its elaboration, which include the Company's principal investments and financing transactions that we consider to be viable, in keeping with the investment and financing policies and with the same strategic outlook.

The contingencies of a labor, civil, mercantile and administrative nature as of December 31, 2018 showed a behavioral tendency similar to previous periods, and the resolution of those demands will not affect the financial position and economic stability of the companies involved.

In 2018, the Company bought back some of the Company's stock, in the amount of \$300,967,000 pesos.

In 2018 there was a gain from the revaluation of investment property (shopping malls) in the amount of \$91,652,000 pesos.

The provisions recorded in the accumulated expenses must meet the criteria of a liability, in conformance with the International Financial Reporting Standards (IFRS), so that only provisions on acquired commitments or expenses that have already been incurred may be recorded.

As for matters related to fraud, the noncompliance with laws, regulations and an undue influence in the execution of the audit, the pertinent investigations were made in the Administration and various investigative procedures were applied without the discovery of any violation.

For the elaboration of this report, the Audit and Corporate Practices Committee based its procedures on the information that was provided to the Committee by the Chief Executive Officer of the Company and by the corresponding managers of the juridical persons controlled by the Company, as well as on the information provided by the external auditor.

**José Kuri Harfush**

Chairman

**Antonio Cosío Pando**

**Alberto José Slim Rivera Torres**



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